



A STUDY ON WORKING CAPITAL MANAGEMENT IN DECCAN PUMPS

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INTRODUCTION

Effective management of working capital is the basic necessity for sound organizational health of an enterprise. Therefore working capital is an integral part of business management of current assets. Current liability, and inter relationship between the two. Working capital is of a liquid nature. Therefore working capital management is also known as liquidity management.

Globalization is the mantra of the world now a day. It is changing the face of the world by changing the capital flow from one country to another and utilizing the resources. The developing economies generally face the problem of sufficient utilization of resources available to them. Capital is the most scale and highly valuable productive resource in such economies and proper utilization of these valuable resources promotes profitability, rate growth, progress, and cuts down cost of production and above all improves efficiency of the productive systems. The total capital comprises of the fixed capital and the working capital. Working capital is the most dynamic elements of a company's transaction. Understanding the management of a working capital can help to maximize a company's leverage and potential for revenue generation. A company should maintain adequate working capital to run the business smoothly. Excessive working capital can be dangerous as it results in unnecessary accumulation of inventories leading to theft of malpractice, indicates defective credit policy and degenerates in to managerial inefficiency.

ABOUT THE INDUSTRY

The growth of Indian pump industry was quite satisfactory in the last few decades as domestic requirement of pumps was high due to infrastructure development and large population to cater. With Government restrictions for import till few years back, indigenous manufacturers of all sizes were developed. Now country has large and medium scale manufacturers in the organized sector producing pumps for various applications at all price levels and in the small scale sector there are hundreds of small units catering basically domestic and agricultural sector. About 14 laks pumps are produced every year. Though there are no established figures, the market is believed to be worth about Rs 2500 crore. Indian manufacturers have always adhered to quality standards with many companies having ISO 9000 certification, now even small scale manufacturers are growing conscious about quality. With globalization and economic boom, mindset has changed in recent times, customers are demanding good quality and trouble free performance and ready to pay for it.

OVERVIEW OF THE INDIAN PUMP INDUSTRY:

Pumps play a dominant role in the sectors like agriculture, production of oil and natural gas, petroleum refining, petrochemicals, power generation, domestic and household utilities, etc, and contribute a major part in nation's economy.

Rajiv C. Amin

MANUFACTURING SCENARIO:

Presently, the gross value of pump's production in India is estimated to be in the order of US\$ 450 million. The scales of production and corporate structures of manufacturers range from the small scale industries, medium to large scale industries, both in the unorganized sectors and also public sector units.

In terms of drive ratings, the range of manufacture extends from fractional horsepower designs to large pumps of drive rating of the order of three mw. Almost all types of pumps, manufactured internationally, are also made in India

DEMAND AND SUPPLY SITUATION:

Indian pumps have contributed to the nation's economy significantly. Prominent sectors amongst them are agriculture, onshore and offshore production of oil and natural gas, petroleum refining, petrochemicals, mining, ship-building and marine duties, power generation, public water supply and sanitation, domestic and household utilities, process industries producing fertilizers, insecticides, pesticides, drugs and pharmaceuticals, textiles, soaps and detergents, cosmetic and health care products, dairies, vegetable oil and processed and packed food products, breweries, paints, etc.

TECHNOLOGIES, COLLABORATIONS AND INDIGENOUS R&D:

Most of the world-renowned technologies have been operative in India. Majority of them seem to be European, to name a few, KSB, Sulzer, Weir, SPP, Allweiler, Bornemann, Alstom, Stork, Terromecanica, Godiva, Pleuger, Grundfos, ABS, Flygt, Denver Orion, etc. Amongst them American, Japanese and Australian technologies can be sighted in Worthington-Dresser, Ingersoll Rand, Goulds, Durco, Ebara, Asia LMI, Warman, etc. Indian technical skills and engineering aptitudes have shown good capabilities of almost immediate absorption of the involved design, manufacturing and quality control specifications and application engineering needs. That gives a good picture of the internationally competitive field already in play in India. The Indian craftsmen often enterprises in reverse engineering at very competitive costs. Amongst the notable achievements of indigenous development and R&D can be cited, the primary coolant pumps and sodium coolant pumps for nuclear power, large 2250 mm delivery-size vertical turbine pumps and concrete volume pumps for cooling water circulation in thermal power generation can also be cited.

EXPORTS AND SHARE IN THE GLOBAL MARKET:

Exports have been a regular feature of Indian pump industry for years. Indian pumps have reached more than sixty countries around the world including developed countries.

Some buy-back arrangements have also consistently been in operation for nearly twenty in some cases, showing the strong confidence and trust, earned in the process. But, by and large, the size and potential of the domestic market has itself been so well that majority of manufacturers take little interest in exports to the global market is admittedly insignificant. In contrast, the size of domestic markets of most individual European countries has been so small that perforce of such situation. European manufactures have developed a culture of being a global player, right from the launch of an enterprise.

Indian pump manufacturers seem to fulfill all the demands of pump-usage, since imports are not very significant. Some special construction pumps of special materials used for special duties like requirements of very fine vacuum are also imported. The quantities are small although the unit cost of these pumps may be high.

Globalization of Indian economy enthrone some importers to sporadically import a few container-loads of run-of-the mill type pumps for agriculture and domestic duties. However, those events do not seem to have caught any fancy in the Indian markets. Pump automatically gets imported with systems, not de-packaged for items that can be procured indigenously. Yet, users do seek import substitutes due to the cost-effectiveness of Indian manufacture and for better guarantee of support with respect to after-sales service.

ABOUT THE COMPANY

DECCAN INDUSTRIES was started in the year 1981 with the first exclusive production line for submersible pump sets in the country. Borewell submersible pumps, Openwell submersible pumps, Jet pumps and Centrifugal pumps are the major product group's. With an annual production of 100 thousand units, Deccan is one of India's leading pump manufacturers. Deccan innovative pumps have been widely recognized in the market and the company is the largest producer of vertical open well pumps in the country. The head of the company is K.K. Veluchamy (Managing Director). It started its activities with an investment of 20 lakh. The present net worth is around 1000 million.

The strength of our infrastructure has been a key factor in delivering quality products on time, every time. The company is installed with all modern and precise machineries required to manufacture the pumps in high caliber. Our stainless steel sheet metal unit has excellent state-of-the-art manufacturing facilities for producing stainless steel components.

The company has four manufacturing units with a total built up area of about 80000 sq. ft mostly roofed by concrete and another 120000 sq. ft is used for stocking. Our testing facility is the country's largest and all products are routed through exhaustive testing processes before they reach the market Apart from

this a land measuring about 2.5 hectares is available in the vicinity of the company for future expansion and diversification. Modern methods are used for stocking and handling and even the raw materials stored in the stock yard are through pallets. Internal and external training programs on productivity, inspection, quality management systems and housekeeping are conducted regularly.

SALIENT PRODUCT FEATURES:

Special product features create a strong competence and have established our brands through the length and breadth of the country. The features are:

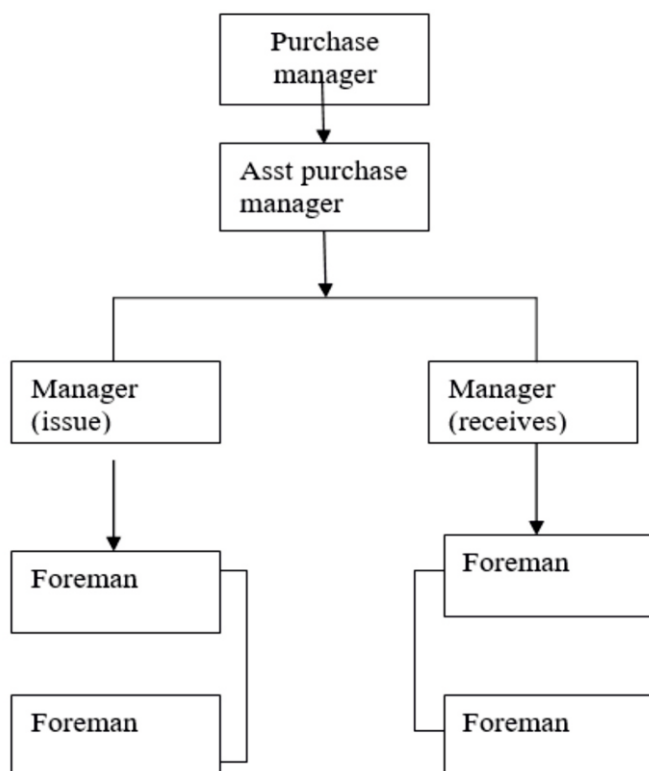
- All the motors manufactured operate at very low voltages and are specifically designed to withstand the wide voltage fluctuations prevailing in rural areas.
- We offer submersible pump sets for agricultural use that are specially designed, to save energy for operations under 240/460 Volts single phase power system.
- Absence of control valves in jet pumps.
- Mini submersible pumps fitted with as many as 10 impellers help develop higher heads to use in flats etc. contrary to monopoles which has only one impeller.
- Absence of threaded joints in both pump and motor to facilitate for easy dismantling and assembling during service.

VARIOUS DEPARTMENTS:

- Purchase Department
- Stores Department
- Production Department
- Finance Department
- Marketing Department
- Human Resource Department

PURCHASE DEPARTMENT

The purpose of purchase department is to streamline the system of purchase components and raw materials.

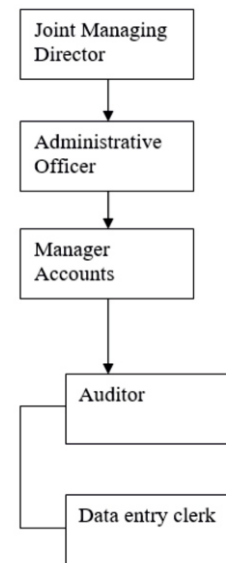


STORES DEPARTMENT:

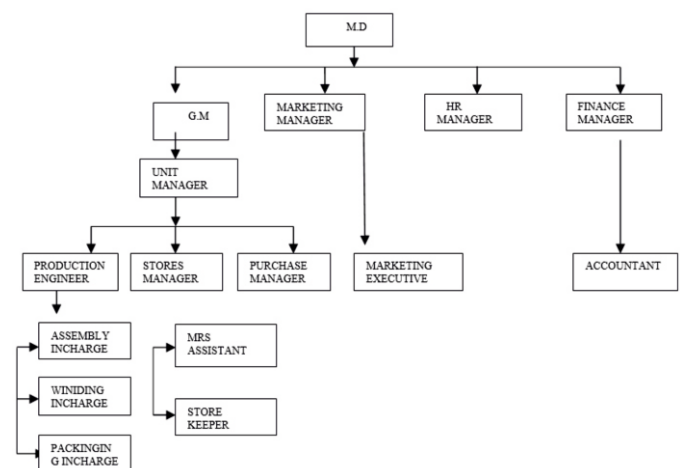
The materials are verified for quantity correctness, proper maintenance at the go down (heat, pressure, rain etc), and defects due to transportation by the stores personnel,. Depending on the nature of the materials received, the material inwards and receiving inspection form is computer printed and issued to QC personnel for the correctness of quality and dimension.

FINANCE DEPARTMENT:

Finance department is fully computerized and that enables fast recording editing and alteration of records. They are responsible for arranging finance and monitor the cash flow and allocation of fund to each department of the company, and they are responsible the controlling over all finance.



Organization structure:



SCOPE OF THE STUDY:

The study of working capital management is conducted at Deccan pumps pvt ltd, Coimbatore for a period of 2001-2002 to 2009-2010. This study aimed to understand the structure of working capital position of the company.

Working capital analysis is very vital for both management and short term creditors. Management can assess the efficiency of the working capital employed in the business. Such an analysis helps the management to detect the trends and initiate corrective measures. It helps the shareholders and creditors to determine prospects of payment of dividend and interest. The analysis of working capital management helps in determining ability of the firm to repay its correct debts prompts assess the effectiveness of management of working capital.

OBJECTIVES OF THE STUDY:

- 1) To study the current assets and current liabilities and components of Working capital of the company.
- 2) To assess the liquidity, profitability and financial position of the Company.
- 3) To analyze and determine the trend in working capital in the future Years of the company.

METHODOLOGY:

Research methodology is a way to systematically show the research problem. It may be understood as a science of studying how research is done scientifically. So research methodology not only takes about the research but also consider the logic behind .The method we used in contexts of our study. Research design is the arrangement of condition for collection and analysis of data in a manner that aims to continue relevance to the research purpose with procedure.

DATA COLLECTION:

Primary data: The primary data are those which are collected afresh and for the first time, and thus happens to be original in character

Secondary data: The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process.

The data mainly used for this study is secondary data

LIMITATIONS OF THE STUDY:

- The study is limited to 10 years performance of Deccan pumps pvt Ltd.
- The data used in this study has been taken from published annual reports only. As per the requirement and necessity, data has been grouped and sub grouped.
- In the absence of sufficient data personnel judgments have been taken on reasonable assumption.

REVIEW OF LITERATURE:

(1) Pradeep Singh (2008) in his paper tries to evaluate the effect of the size of inventory and the impact on working capital through inventory ratios, working capital ratios trends. Computation of inventory and working capital and liquidity ranking. Finally, it was found that size of the inventory directly affects working capital and its management. Size of the inventory and working capital of DECCAN PUMPS is properly managed and controlled. The main objectives of the present study to assess the significance of inventory and inventory management by few important parameters like inventory turnover ratio, inventory to current assets, inventory to working capital ratio. Inventory holding ratio etc.

(2) Kesseven Padachi (2000) is about the working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations. The need for maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. Working capital starvation is generally credited as a major cause if not the major cause of small business failure in many developed and developing countries (Rafuse, 1996).

Many researchers have studied working capital from different views and in different environments. The following ones were very interesting and useful for our research.

(3) Eljeljy, (2004) elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi companies. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

(4) (Shin and Soenen, 1998) highlighted that efficient Working Capital Management (WCM) was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. The relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock return was examined using correlation and regression analysis, by industry and capital intensity. They found a strong negative relationship between lengths of the firm's net trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns.

DATA ANALYSIS**STATEMENT OF WORKING CAPITAL:**

The consideration of the level investment in current assets should avoid two danger points excessive and inadequate investment in current assets. Investment in current assets should be just adequate, not more or less, to the need of the business firms. Excessive investment in current assets should be avoided because it impairs the firm's profitability, as idle investment earns nothing. On the other hand inadequate amount of working capital can be threatened solvency of the firms because of its inability to meet its current obligation.

TABLE-3.1.1
STATEMENT OF WORKING CAPITAL FROM 2000 TO 2010

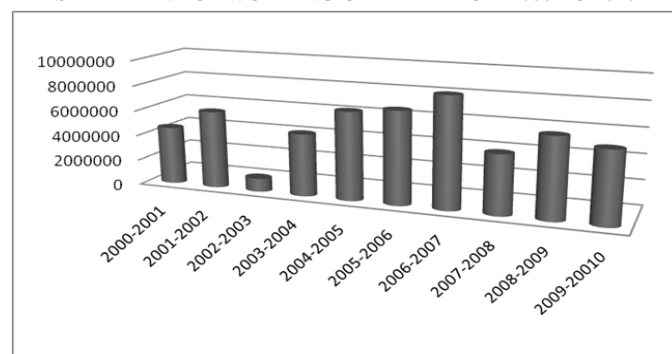
(Figures in lakh)

Particulars	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Current Asset										
Inventories	52.68	51.73	42.31	61.02	59.28	40.09	73.64	52.56	30.47	48.80
Cash & bank	4.13	16.79	7.97	33.23	19.82	20.85	1.87	1.72	6.27	0.38
Sundry debtors	4.92	6.25876	7.54	9.82	11.45	67.55	39.58	32.92	25.87	5.75
Advance & deposit	13.63	14.49	12.12	5.54	46.15	13.63	14.49	12.12	25.54	46.15
receivables	1.85	5.28	5.43	7.21	8.56	3.74	3.81	3.69	28.59	14.11
Total Current Asset	77.23	94.58	75.40	116.82	145.28	145.87	133.41	103.02	116.76	115.20
Current liability										
Current liability	27.93	29.18	62.34	65.89	73.11	72.99	44.80	54.41	46.58	52.92
Other liability	3.42	4.05	2.13	1.54	2.52	0.62	0.32	0.73	2.8	4.95
provision	0.36	0.37	0.38	0.39	0.40	0.42	1.68	1.25	4.50	0.99
Total current liability	31.72	33.61	64.86	67.83	76.04	73.13	46.81	56.39	53.90	58.87
Net working capital	45.51	60.96	10.54	48.99	69.24	72.74	86.60	46.62	62.86	56.32

Interpretation:

From the above table, it is depicted that the net working capital is showing a decreasing trend. It increases from Rs 4551089.85 to Rs 6096854.87 during 2001-02 and it decrease to 1054179.9 in this year the working capital is inadequate in the company. The company need not due any operation suddenly in this year and it increase 4899201.9 to 8660304.5 in 2004 to 2007. This is because all the components of the current assets and current liabilities increase during this period. But there is a slight decrease in 08 and started to increase from 6286004 to 5632852.7 in the year 2009-2010. The increase in working capital shows stable increase in future year.

CHART. 3.1.1
STATEMENT OF WORKING CAPITAL FROM 2000 TO 2010



3.2 COMMON SIZE STATEMENT:

Common Size Statement is one of the tools used in connection with analysis and interpretation of financial statements. This statement indicates relationship of various with some common item (expressed as percentage of the common items)

In the balance sheet, the total of assets and liabilities is taken as the base and all other figures are expressed as percentage of this total. The percentage so calculated can be easily compared with the corresponding in other periods and meaningful conclusions can be drawn.

TABLE-3.2
COMMON SIZE STATEMENT SHOWING CURRENT ASSETS & LIABILITIES FROM THE YEAR OF 2000-10

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Current Assets										
Inventories	68.21	54.69	56.12	52.24	40.81	27.48	55.20	51.02	26.09	42.36
Cash & bank	5.35	17.76	10.58	28.43	13.64	14.29	1.40	1.67	5.37	0.33
Sundry debtors	6.38	6.62	10.01	8.41	7.89	46.31	29.67	31.96	22.16	4.99
Advance & deposit	17.65	15.23	16.08	4.75	31.76	9.34	10.87	11.77	21.88	40.06
Receivable	2.40	5.59	7.20	6.17	5.89	2.57	2.86	3.58	24.49	12.24
Total Current Assets	100	100	100	100	100	100	100	100	100	100
Current liabilities										
Current liability	88.08	86.83	96.12	97.13	96.14	98.57	95.70	96.48	86.42	89.89
Other liability	10.77	12.06	3.29	2.28	3.32	0.85	0.69	1.30	5.23	8.42
provision	1.15	1.12	0.59	0.59	0.53	0.56	3.59	2.22	8.35	1.69
Total Current liabilities	100	100	100	100	100	100	100	100	100	100

Interpretation

From the common size statement for the past ten years the following conclusions can be made;

Current Assets:

- Inventory cover the first major portion of the current assets during 2001, it is 68.21% and it decreased to 54.69 in 2002, again it shows a decreasing trend, from 56.12 to 40.81 in 2003-2005. In 2006 it increases from 52.20% to 51.02% in the years 2007. After that it shows as decreasing trend in the next years from 26.09 and again it increase in 2009-10.
- The next major portion of current asset is interest accrued on loans and advances which comprises of 17.65 % during the year 2000-01 and decreased from 15.23 to 4.75 % in 2002-2004. And from 2004-05 its shows increasing trend as 40.06 % in 2010
- Cash & bank covers the third major portion of the current assets. During 2001 it is 5.35%. In 2002 it increases 17.76%. After that it shows as decreasing trend in the next years from 10.58 and again it increase in 2003-04. and it shows slight decrease in 2010.
- Sundry debtors Balances cover only a limited portion of current assets. In the year 2001-03 it was 6.62% to 10.01% and then it shows decrease trend in the year 2009 and 2010 it was 8.41% to 7.89%.

Current liabilities:

- Liabilities show an increasing trend from 88.08 to 96.14 during the year 2000 to 2005. In current liability there is no decrease trend. Liabilities show an increasing trend from 98.57 to 96.48 during the year 2006 to 2008. In 2009 it decreases to 86.42 and again it increase to 89.98 % in 2010.
- It can be said that liabilities and provisions covers 80% and 20% correspondingly.
- Provisions show an increasing trend in 2001 to 2002 from 1.15 to 1.12, and it decreases to 0.59 in the year 2003 and 2004. And it again it show decreasing trend in 2010.

TABLE NO.3.3.1
LIQUIDITY RATIO FROM THE YEAR 2000 TO 2010

Year	Current ratio	Quick ratio
2000-2001	2.43	0.77
2001-2002	2.81	1.27
2002-2003	1.16	0.51
2003-2004	1.72	0.82
2004-2005	1.91	1.13
2005-2006	1.99	1.45
2006-2007	2.85	1.28
2007-2008	1.83	0.89
2008-2009	2.12	1.60
2009-2010	1.96	1.87

Interpretation

From the above table it is depicted that, Current Ratio shows a stable trend over years and all these years the ratio is 2, the industry standards ratio is 2:1. In the year 2001 the current ratio was 2.43:1 and it increase to 2.81. Then the ratio decrease to 1.16 and increase from 1.72 to 2.85 in the year 2003-2007. Then the ratio to be decrease from 2.81 to 1.83 in 2008 and increase to 2.12 in 2009. Finally it shows slight decrease in the year 2010 the ratio is 1.96. The year 2003 only the company ability was not good. The current ratio is 2:1 so current ratio indicates the firm's ability to pay its current liability.

Company's Quick ratio shows an increasing trend. Quick ratio in the year 2001-02 is increase from 0.77 to 1.27 and it decrease to 0.51 in 2003 and increase to 0.82 in 2004. After that it increased as 1.13 in 2005-06 and again it decreased to 1.28 in 2007-08. Thereafter it increased in the year 2009-10 as 1.87 respectively. Company's investment in liquid asset is more than three times as compared to its current liabilities. Firm has to satisfy ideal ratio 1:1. Therefore firm can reduce the amount of working capital without any risk and firm shows their sound financial position

FINDINGS**Current Assets**

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CONCLUSION

The present study on working capital management with special reference to Deccan pumps pvt ltd, Coimbatore. This study highlights the concepts of work-

ing capital, its components and trend in the working capital. It plays an important role in the economy of our country.

The working capital management refers to the management of the level of all these individuals' current assets. Sufficiently liquidity is important and must be achieved and maintained to provide that funds to pay-off obligation as they arise or mature. The adequacy of cash and other current assets together with their efficient handling virtually determine the survival or demise of the company.

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